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Thread: [Risks associated with earning interest on savings?](#)

jganjanski - May 10, 2021, 11:45 pm

I've got a question for anyone earning interest on their cryptos w savings (whether it be in flexible, locked, etc.) with guaranteed returns.

When depositing money into a savings account to earn interest, that money is being loaned elsewhere, and the interest rates being offered sound nearly too good to be true.

Current rates being at 5.79% APY for flexible savings and a 7% APY for 90 days locked savings.

Let's compare that to the average APY we can find in banks. "According to the FDIC, the national average interest rate on savings accounts currently stands at 0.04% APY. This applies to both average and jumbo deposits (balances over \$100,000)."

It's obvious that saving in Binance wallet and other competitors will generally earn you insanely high APYs compared to saving in any bank.

My question begins here - how can Binance successfully offer significantly higher interest rates when people in need of a loan can obtain money elsewhere for much cheaper interest rates?

I was wondering if Binance (or a third-party that they source to) loan funds to more dodgy/sketchy margin traders who wouldn't be able to obtain loans elsewhere. Are there risks associated with lending your assets to margin traders?

I think a large part of me is worried somewhat that this might be a case similar to CredEarn - offered nice interest rates, loaned to a bunch of sketchy companies in China and ended up being unable to pay back the clients who had deposited money - with the exception being that this time, Binance is loaning to "sketchy" margin traders instead of companies. Or is that risk negated by the fact that margin trading is a zero sum game?

Any insight would be greatly appreciated.

shreder - May 10, 2021, 11:49 pm

Pfft it depends. I have a lot in LP and some in exchanges. I wouldn't put your savings in ONE place. I don't expect all the exchanges I use or LP to get drained.

Exchange risk = hacked
LP/Smart contract related = exploits

jganjanski - May 11, 2021, 12:02 am

(May 10, 2021 11:49 PM)shreder Wrote: [CITE](#) Pfft it depends. I have a lot in LP and some in exchanges. I wouldn't put your savings in ONE place. I don't expect all the exchanges I use or LP to get drained.

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In this case, it's not necessarily an exchange or provision of liquidity but rather a loan system from

what I understand.

They loan out your funds you margin traders and give you a percentage of the interest they accrue.

The main concern I have here is that since Binance can offer a significantly-above-the-market APY, they must be lending funds to less credible traders and projects in need of loans they can't secure elsewhere.